

**REPORT OF THE AUDIT OF THE
HART COUNTY
CLERK**

**For The Year Ended
December 31, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HART COUNTY CLERK

**For The Year Ended
December 31, 2011**

The Auditor of Public Accounts has completed the Hart County Clerk's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$1,992 from the prior year, resulting in excess fees of \$33,169 as of December 31, 2011. Revenues increased by \$30,787 from the prior year and expenditures increased by \$28,795.

Lease Agreements:

The County Clerk has lease agreements for computer software, hardware, and copiers. Future payments of \$54,032 are needed to meet these obligations.

Report Comment:

2011-01 The County Clerk Should Prohibit Employees From Cashing Personal Checks

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Terry Martin, Hart County Judge/Executive
The Honorable Lisa Hensley, Hart County Clerk
Members of the Hart County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Hart County, Kentucky, for the year ended December 31, 2011. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 21, 2012 on our consideration of the Hart County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Terry Martin, Hart County Judge/Executive
The Honorable Lisa Hensley, Hart County Clerk
Members of the Hart County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comments:

2011-01 The County Clerk Should Prohibit Employees From Cashing Personal Checks

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Hart County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

June 21, 2012

HART COUNTY
LISA HENSLEY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

State Fees For Services	\$	7,280
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House Bill 537 - Revenue Supplement		61,283
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Fiscal Court		19,220
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	539,742
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Usage Tax		546,755
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Tangible Personal Property Tax		976,178
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Lien Release Fees		8,386
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Web Renewals		542
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Miscellaneous Income		20
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Other-

Marriage Licenses		5,361
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Deed Transfer Tax		29,811
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Delinquent Tax	221,738	2,328,533
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		12,940
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Real Estate Mortgages		23,642
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Chattel Mortgages and Financing Statements		40,936
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Affordable Housing Trust		19,020
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All Other Recordings		16,582
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Charges for Other Services-

Copywork	3,911	117,031
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Other:

Miscellaneous		7,892
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Interest Earned		219
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Total Revenues		2,541,458
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The accompanying notes are an integral part of this financial statement.

HART COUNTY
 LISA HENSLEY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	375,042	
Usage Tax		528,288	
Tangible Personal Property Tax		368,874	
Web Renewals		542	
Licenses, Taxes, and Fees-			
Delinquent Tax		21,840	
Legal Process Tax		15,507	
Affordable Housing Trust		19,020	\$ 1,329,113

Payments to Fiscal Court:

Tangible Personal Property Tax	86,595	
Delinquent Tax	20,142	
Deed Transfer Tax	28,319	135,056

Payments to Other Districts:

Tangible Personal Property Tax	481,734	
Delinquent Tax	111,576	593,310

Payments to Sheriff 18,560

Payments to County Attorney 29,618

Operating Expenditures:

Personnel Services-

Deputies' Salaries 185,536

Employee Benefits-

Employer's Share Social Security 18,188

Employer's Paid Health Insurance 41,973

The accompanying notes are an integral part of this financial statement.

HART COUNTY
 LISA HENSLEY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Materials and Supplies-

Office Supplies \$ 28,426

Other Charges-

Conventions and Travel 2,523

Postage 5,912

Equipment and Maintenance 1,568

Clerk's Insurance & Bonds 295

Dues 570

Election Expense 718

Bad Debt Expense 1,739

Bank Charges 160 \$ 287,608

Debt Service:

Lease Purchases 30,502

Total Expenditures \$ 2,423,767

Net Revenues 117,691

Less: Statutory Maximum 77,243

Excess Fees 40,448

Less: Expense Allowance 3,600

Training Incentive Benefit 3,679 7,279

Excess Fees Due County for 2011 33,169

Payment to Fiscal Court - March 14, 2012 33,169

Balance Due Fiscal Court at Completion of Audit \$ 0

The accompanying notes are an integral part of this financial statement.

HART COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2011

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HART COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Hart County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Hart County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HART COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 4. Lease Agreements

A. Computer Software

The Hart County Clerk's office is committed to a lease agreement with Software Management for computer software. This software agreement requires a monthly payment of \$1,225 for 60 months to be completed on October 5, 2013. As of January 1, 2011, the balance of the agreement was \$40,425. During 2011 payments of \$14,700 were made. The total balance of the agreement was \$25,725 as of December 31, 2011.

On June 9, 2009 the Hart County Clerk entered into an additional agreement with Software Management for computer software. This software agreement requires a monthly payment of \$475 for 52 months to be completed on October 5, 2013. As of January 1, 2011 the balance of the agreement was \$16,150. During 2011 payments of \$5,700 were made. The total balance of the agreement was \$10,450 as of December 31, 2011.

During 2010 the Hart County Clerk entered into an additional agreement with Software Management for computer software in the amount of \$8,718. This software agreement requires a monthly payment of \$189 for 46 months to be completed on October 5, 2013. As of January 1, 2011 the balance of the agreement was \$6,430. During 2011 payments of \$2,270 were made. The total balance of the agreement was \$4,160 as of December 31, 2011.

B. Computer Hardware

The Hart County Clerk's office is committed to a lease agreement with Software Management for computer hardware. This hardware agreement requires an annual payment of \$4,144 for three years and a final payment of \$4,558 to be completed on October 5, 2013. As of January 1, 2011 the balance of the agreement was \$8,702. During 2011 a payment of \$4,144 was made. The total balance of the agreement was \$4,558 as of December 31, 2011.

On June 9, 2009 the Hart County Clerk entered into an additional agreement with Software Management for computer hardware. This agreement requires an annual payment of \$209 for three years and a final payment of \$230 to be completed on June 8, 2014. As of January 1, 2011 the balance of the agreement was \$648. During 2011 a payment of \$209 was made. The total balance of the agreement was \$439 as of December 31, 2011.

C. Copiers

The office of the Hart County Clerk entered into a lease agreement with IKON for copiers totaling \$17,400. The agreement requires a monthly payment of \$290 for 60 months to be completed on July 17, 2014. As of January 1, 2011, the balance of the agreement was \$12,180. During 2011 payments of \$3,480 were made. The total balance of the agreement was \$8,700 as of December 31, 2011.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Terry Martin, Hart County Judge/Executive
The Honorable Lisa Hensley, Hart County Clerk
Members of the Hart County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Hart County Clerk for the year ended December 31, 2011, and have issued our report thereon dated June 21, 2012. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Hart County Clerk's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comment and recommendation as item 2011-01 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hart County Clerk's financial statement for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation as item 2011-01.

The Hart County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Hart County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

June 21, 2012

COMMENT AND RECOMMENDATION

HART COUNTY
LISA HENSLEY, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2011

FINANCIAL STATEMENT FINDING:

2011-01 The County Clerk Should Prohibit Employees From Cashing Personal Checks

During receipts testing, auditors noted personal checks from some employees were cashed in the County Clerk's office. Based on daily checkout sheets, total checks cashed were \$2,366 in calendar year 2011 and \$3,637 for the period January 1, 2012 through March 31, 2012. There could be more employee checks that were cashed and cannot be determined due to the employee entering a different name, other than their own, in the accounting system.

Due to a lack of oversight by the County Clerk and bookkeeper, this went undetected until a former employee's check in the amount of \$330 was returned for non-sufficient funds in calendar year 2012. Subsequent to the returned check, the former employee stopped payment on two checks totaling \$700. The County Clerk withheld the returned check amount plus a non-sufficient funds fee from the former employee's paycheck and turned the other two checks over to the County Attorney for collection. On March 6, 2012, the total amount of checks plus fees were paid by cash and deposited to the 2012 Fee Account.

The lack of effective internal controls over receipts led to the commingling of public and private funds which is prohibited by statute. Per KRS 64.850, "It shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited."

The County Clerk should prohibit employees from cashing personal checks in the County Clerk's office. We recommend the County Clerk implement internal controls to prevent the commingling of public and private funds.

County Clerk's Response: Employees will no longer be able to cash personal checks.

